
**U.S. Senate
Republican Policy
Committee**

Don Nickles, Chairman
Doug Badger, Staff Director



**U.S. House
Republican
Conference**

John Boehner, Chairman
Barry Jackson, Executive Director

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Balanced Budget Act Closes Tax Loopholes

About \$18 billion in additional revenues will come into the U.S. Treasury over the next seven years because the Balanced Budget Act cuts tax breaks and closes loopholes for big businesses and special interests.

The reforms pay for a much-needed middle-class tax cut and bring us to a balanced budget by the year 2002, making good on the Republican commitment to close tax loopholes and balance the budget in seven years.

Reforms include:

- **We end interest deductions for corporate-owned life insurance (COLI) policy loans.**

The current tax code allows large corporations to abuse the tax law by taking out life insurance policies on their employees — with no limit on how many — and then to borrow against those policies interest-free and tax-free. The Balanced Budget Act closes that loophole by prohibiting interest deductions for future policy holders and requiring current policyholders to phase out their interest deductions over the next several years. Small businesses and large companies could continue to take out insurance policies on their key persons.

- **We repeal the tax credit that allows companies to avoid taxes on profits from their operations in Puerto Rico.**

Section 936 of the current tax code offers a tax credit which allows a relatively small number of U.S. companies doing business in Puerto Rico and the U.S. Virgin Islands to avoid paying federal income taxes. The Balanced Budget Act phases out that credit. (The length of the phase-out period depends on whether a corporation claims a wage credit or an income credit.)